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VOL. CLIII NO. 88 Thursday, May 5, 1988 1 Year

Today

Banks in France have won the lion's share of the business created by a successful new retirement savings product. ____ 2

Financial Corporation of America posted a first-quarter loss of $63.2 million and said regulatory capital was exhausted at its American Savings and Loan Association subsidiary. ____ 2

The Fed has slightly extended banks' authority to combine investment advice with brokerage services in its approval of an application by Sovran Financial Corp., Norfolk, Va. The holding company received permission to move its financial services group from its bank subsidiary to its investment banking and brokerage arm. 2

Centerre Bancorp., St. Louis, said it received a "friendly merger" offer from Boatmen's Bancshares Inc. for a price of $50 per share. ____ 3

The failure of federal prosecutors to win convictions in the Continental Illinois trial is a disappointment but not a fatal setback in the government's attempts to deter bank fraud. ____ 3

Rep. Gerald D. Kleczka, D-Wis., plans to introduce legislation to protect the right of states to authorize insurance powers for their state-chartered banks. ____ 3

Lewis S. Ranieri, the man who drew the blueprint for the $650 billion mortgage-backed securities market, says he sees some cracks in the foundation. ____ 18

Moore Financial Group is aiming for growth of almost 43% in the next three to five years. The Boise, Idaho-based bank company, with $3.5 billion in assets, is branching out in the western states, most recently acquiring Western Bank Holding Co., Bellevue, Wash., for $4.1 million. ____ 24

Executive Changes ____ 22
Flashbacks ____ 4
In the News ____ 3
Regional Bank Earnings ____ 14

CONSUMER FINANCIAL SERVICES

Consumers soon may be able to pick up the phone, dial a 700 number, and receive financial information ranging from stock market quotes to rates on bank loans. ____ 8

A boom in credit card delinquencies has led to a surge in business for debt collection agencies. ____ 8

Marketers have been saying for 20 years that banks need to focus on sales and service, James Donnelly writes. But there are only three ways to persuade bankers to change — through power, reason, or reeducation. ____ 4

Worth Repeating

The stock has just sat there for a month. I've got it rated as aggressively as I can rate it.

J. Richard Fredericks, analyst for Montgomery Securities in San Francisco, on J.P. Morgan & Co's stock price. [Page 1]

PROFILE

I like managing my own shop. I like working with people. And I love the bottom-line discipline.

— Karen Horn
Chairman and Chief Executive Officer
Bank One Cleveland

Horn Finds Plenty of Rewards As Head of Bank One Cleveland

By LISABETH WEINER
Midwest Bureau

CLEVELAND — Karen Horn wanted to stop making policy and start making profits. So after five years as head of the Federal Reserve Bank of Cleveland, she became chairman and chief executive officer of the $1.5 billion-asset Bank One Cleveland.

"I wanted to return to the private sector," Mrs. Horn says. "I chose to be a manager of a company. That's what I want to do."

But Mrs. Horn's job switch in April 1987 startled some members of the banking community. Even though her salary reportedly now tops $200,000 — up from $135,000 at the Fed — colleagues view her position as less prestigious and less powerful.

As the only woman ever to be president of a Federal Reserve Bank and as one of only two women in the country to head a commercial bank with assets of $1 billion or more, she certainly is a member of an elite group. The largest bank in the United States headed by a woman is Equibank, Pittsburgh, whose chairman and chief executive officer is Claire W. Gargalli.

Although the Cleveland bank, with deposits of $1.2 billion and 47 offices in the metropolitan area, is a stellar performer, it is a small fish in a big pond. In a market of six major players, it ranks fourth.

Competitors have questioned whether Mrs. Horn took the job with the intention of assuming a board position at the holding company at a future date. "There have been absolutely no promises made," says Banc One Corp. chairman John McCoy.

Just What She Wants

At least for now, Mrs. Horn has what she wants: a line job. "My interest now is in managing a commercial bank. I loved making policy; it was terribly stimulating," she says. "But I like managing my own shop. I like working with people. And I love the bottom-line discipline."

The 44-year-old is getting her chance to do all those things at Bank One Cleveland, which is part of a $23 billion-asset superregional bank holding company. Firmly ensconced in In-

Horn: Page 6 ➡

Morgan Stock Languishes as Others Gain

By PHILIP T. SUDO

NEW YORK — Call it curious or chalk it up to market unpredictability, but nearly every major bank stock has gained in value this year — except that of J.P. Morgan & Co.

Analysts say there is no single explanation for why Morgan's stock has continued to lose ground through the first four months of the year. From Jan. 1 through May 2, the stock dropped 14.8% — the sharpest decline among major banking companies, excluding the troubled First RepublicBank Corp., Dallas. By contrast, the top 50 bank stocks gained 10.7% over the same period.

Monday marked a new low for 1988. The issue closed at $30.875, only $3.875 above its 52-week bottom. (By late Wednesday, the issue was trading at $31.25.)

"It's out of whack — I can't understand it," said J. Richard Fredericks, an analyst for Montgomery Securities in San Francisco. "The stock has just sat there for a month. I've got it rated as aggressively as I can rate it."

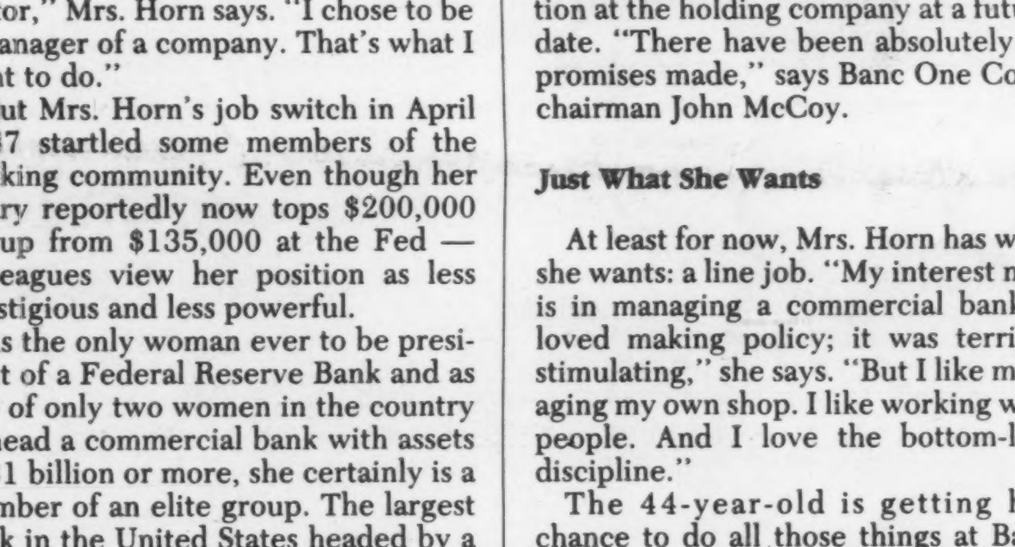
James McDermott, senior analyst for Keefe Bruyette & Woods Inc., put it more succinctly: "The stock has acted like death."

Exactly why is a question "of great concern to us," said Carol Hallingby, vice president of investor relations at Morgan. "We've called our traders, they've called around — they couldn't find anything."

Many analysts say Morgan does too little to publicize its numerous strengths, that its traditionally low profile has allowed a string of unfavorable news stories to cast the firm in an unfairly negative light.

"They're competing in a much more

Morgan: Page 23 ➡



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French Banks Beat Insurance Companies at Their Own Game

Gallic Consumers Favor Traditional Relationships

By LINDA K.S. MOORE

PARIS — Since the beginning of the year, the insurance office down the street has been selling a new retirement savings instrument; so has the bank on the corner.

Both are benefiting from new legislation in France intended to equalize the competition between financial service institutions and insurance companies.

The retirement fund is known as a PER, for *Plan d'Epargne en vue de la Retraite* (savings plan for future retirement). It provides significant tax benefits on investments made in life insurance policies and money market funds if the PER is held until retirement age.

The customer can choose a PER based entirely on life insurance, entirely on financial instruments, or on a combination of the two. The plans were an immediate success, but the lion's share of the new market has gone to the banks rather than the insurance companies. All types of financial institutions in France are permitted to sell insurance through affiliated companies, and they have been doing so since the 1950s.

These companies have concentrated on life insurance, particularly whole life insurance. Whole life insurance fits nicely with the banks' traditional businesses and is also less costly to administer than other types of insurance. Only one bank-owned insurance company sells auto insurance, for example.

"The average French consumer prefers to buy insurance from a bank," said Patrick Sailly, a representative of the French Federation of Insurance Companies.

The banks benefit from a better image — insurance companies are widely perceived as tricking customers with misleading fine print on contracts, Mr. Sailly said in an interview. The banks also trade on their tradition of "relationship banking."

The post office banking system has been selling insurance for the government-operated *Caisse des Depots et Consignations* since 1959. According to a former postal employee, the system prides itself on the tax and retirement planning advice it offers at the post office counter.

Large commercial banks began entering the insurance business in the 1970s. The pace has accelerated since then, with most banks doubling or tripling their annual revenue from insurance sales in the last five years. The banks sell insurance from their branches and through direct marketing.

And they do a better job than the insurance companies, according to a senior marketing official at *Banque Nationale de Paris*, France's largest commercial bank.

Insurance companies now account for barely 60% of annual life insurance policy revenue in France. The banks account for about 30% and cooperative associations hold the balance.

The banks' presence in the domestic market is stronger than these figures suggest, since the insurance company statistics include policies sold worldwide, while the banks operate almost exclusively in France.

The 1986 statistics recently released by Mr. Sailly show that policy premium income for bank-owned insurance companies increased 36.5% over 1985. Mr. Sailly predicts that by year-end 1988, traditional insurance companies will hold less than half the market for life insurance sales in France.■

Insurance Policy Revenue — Bank-Owned Insurers

Revenues in millions of dollars

Affiliate	Bank Owner	1984	1985	1986
CNP	Caisse des Depots (Post Office Banks)	1,571.7	1,794.6	1,986.5
CARDIF	Compagnie Bancaire	231.3	540.7	644.6
ACM Vie	Credit Mutuel	142.3	257.5	425.5
SOGECAP	Societe Generale	96.9	226.0	322.7
Medicale de France	Credit Lyonnais	63.3	122.3	234.8
Fructivie	Banques Populaires and CARDIF	55.4	102.6	173.9
SOCAPI	Credit Industriel & Commercial (CIC)	NA	28.4	160.3
Natio Vie	Banque Nationale de Paris (BNP)	31.5	44.1	129.8
Vie Plus	Credit Mobilier Industriale SOVAC	N.A.	NA	94.4
La Henin Vie	Banque La Henin	32.9	55.7	67.0
Suravenir	Credit Mutuel de Bretagne	N.A.	9.2	61.7
Prepar	Bred - Banque Populaire	9.5	46.1	51.8
Predica	Credit Agricole	NA	NA	38.8
Assurance Regional	Credit Mutuel de Pas de Calais	NA	8.8	15.6
Fructuavie	Banque Populaire du Nord	6.0	10.4	12.7
Prosperite	CC-Banques Populaires	NA	0.44	9.8
Perennite	Banque Francais du Credit Mutuel et de l'Agriculture	2.8	5.7	8.0
Helios	CARDIF & Compagnie Bancaire	NA	1.6	2.7
AVIP	Banque Internationale de Placement	NA	0.14	2.7
+ X Capital	Banque Populaire de Strasbourg	NA	NA	0.8
Total		2,245,1	3,254.0	4,443.2

Source L'Argus Journal Internationale des Assurances, Paris.

FCA Loses $63.2 Million; Thrift Unit Reports Regulatory Capital Deficit

By ROBERT LUKE
West Coast Bureau

LOS ANGELES — The Financial Corporation of America, reporting a first-quarter loss of $63.2 million, said regulatory capital was exhausted at its subsidiary, American Savings and Loan Association.

American Savings, based in Stockton, Calif., had $69.2 million in regulatory capital on Dec. 31, but reported a deficit of $9.3 million at the end of the first quarter.

A year earlier, Financial Corp., based in Irvine, Calif., earned $9.2 million, or 17 cents a share. The holding company lost $468 million in all of 1987, wiping out its net worth.

The Federal Home Loan Bank Board currently is negotiating the sale of American Savings to a group headed by Texas investor Robert M. Bass. The Bank Board will not disclose details of the talks, however, and has been reluctant to provide documents on Financial Corp. to the House Banking Committee, which is investigating the agency's handling of the company's problems.

That reluctance prompted committee Chairman Fernand St Germain, D-R.I., this week to denounce the agency for "stonewalling" the three-month-old investigation.

A Bank Board spokesman said on Wednesday that the agency would provide documents to the committee, but only after its staff has reviewed the papers to ensure that information disclosed in them will not put the Bass deal at risk.

"The Basses are sensitive to publicity, and we don't want to jeopardize the deal," said Bank Board spokesman Karl Hoyle. "I understand Mr. St Germain's frustration."

Financial Corp. said its operating loss widened in the first quarter to $27.4 million, from $17.3 million a year earlier, but declined from $48.5 million in the 1987 fourth quarter.

The company said it boosted its reserve for losses on loans and real estate by $107 million in the quarter, bringing the total reserve to $1.2 billion.

The holding company realized a gain of $49.2 million on the sale of mortgage-backed securities and said it used proceeds from the sale to reduce short-term debt with Wall Street firms. The Bank Board had earlier ordered the company the reduce its holdings of such securities, which totaled nearly $16 billion at March 31.

> The Bank Board has been reluctant to provide documents to the House Banking Committee.

The company's exposure to rising interest rates grew during the period from the year earlier. Financial's one-year negative gap, a measurement of interest-rate risk, rose to 40.9% in the quarter from 24% a year earlier.

Financial Corp., which reported assets of $30.6 billion, said it sold $132.6 million in foreclosed real estate during the quarter, bringing total sales to nearly $2 billion since 1985.■

Fed Approval of Sovran Application Expands Banks Advisory Powers

By JED HOROWITZ

NEW YORK — The Federal Reserve Board, approving an application by Sovran Financial Corp., has slightly expanded the authority of banks to combine investment advice with brokerage services.

The Fed, in its unanimous decision on Tuesday, ruled that Sovran's subsidiary banks may provide customer lists and confidential financial information to help its investment banking arm make credit decisions on particular customers. Sovran promised it would do so only with the customer's prior consent.

The expanded authority was incorporated in approval of the Norfolk bank company's application to move its financial services group from its Sovran Bank subsidiary to Sovran Investment Corp., its investment banking and brokerage arm. The financial services group often gives its institutional and corporate customers nonfee investment advice on buying or selling commercial paper, collateralized mortgage obligations, money market preferred stock, and other securities.

The Fed ruled in 1986 that banks can offer investment advice and brokerage services under one roof without violating the Glass-Steagall Act's prohibition against underwriting. The Securities Industry Association unsuccessfully fought the Fed ruling in court. However, the Fed imposed various restrictions to ensure that the brokerage and banking activities of the parent company do not unduly influence each other.

In addition to limits on cross-marketing, the Fed restricts directors and officers of affiliate banks from serving in similar positions at the investment bank, a so-called management interlock ban. It also requires that all buy and sell notices and advertisements disclose that the investment bank is a separate corporation from other holding company affiliates.

The $14.6 billion-asset Sovran tried to ameliorate the managment interlock ban, arguing that regional banks are at a disadvantage because they must draw their directors and officers from a smaller pool of experts. However, according to an attorney close to the bank, the Fed was adamant about keeping the ban.

The Fed took more than a year to render a decision on the Sovran application.

Sovran's application said that it will offer advisory services only to corporate or institutional customers, although it did not suggest a net worth limit to define these terms. The Fed is considering an application from the Bank of New England that would push the law one step further by allowing a bank to combine investment advice and securities brokerage for small, retail investors.

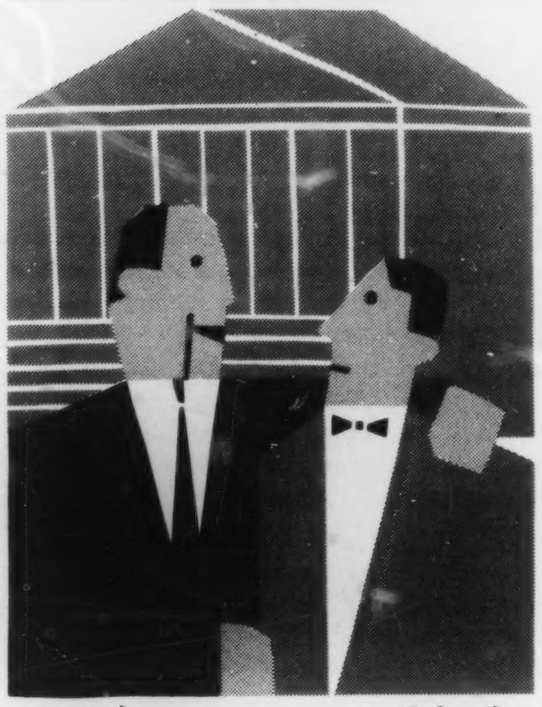
Persuading Bankers to Change with the Times

By JAMES DONNELLY

MY LIBRARY CONTAINS published proceedings from several industry marketing conventions that took place in the late 1960s and early 1970s. In those days the speeches and presentations were often bound and sold as a volume. It is very enlightening to review these volumes occasionally; they tell me how far we haven't come.

In a 1969 volume are numerous presentations encouraging bankers to become more customer oriented and market driven in their product development efforts. In 1971 we were emphasizing the need to improve service to customers. In 1972 a series of presentations urged banks to become "sales organizations." It occurred to me that if I changed "service to customers" to "service quality" and "sales organizations" to "sales cultures," all of the presentations could have been given at any major convention in 1988.

The theme then and now among many marketers seems to be that the solution to our problems is that bankers and banks must change. They must change to become more customer oriented, market driven, sales oriented, service oriented, etcetera. We have always viewed change as the solution.



Joshua Shrier

As I looked over the brown-around-the-edges speeches from 1970, I couldn't help but think that while some progress has certainly been made, we bank marketers are either decades ahead of everyone else, talking to ourselves, preaching to the converted, or we need to focus our energies in another direction.

I think it may be the latter. I propose that changing bankers and banks is not the solution, it is the problem. Managing change is the solution and it is here that we should focus our energies.

Getting People to Change

How do you get people to change? It seems to me that there are only three ways, and two of them have apparently not worked very well. One extreme is the application of power, the other extreme is the application of reason. Midway between these two extremes is an approach that relies on reeducation.

Using power implies the use of coercion. Bank managers can use their power to coerce everyone else to change in the direction they desire. They can implement power through their control over rewards and sanctions. They determine the conditions of employment, including promotion and advancement.

But except in a crisis, when the very existence of the bank is at stake, power has not been successful in bringing about the changes needed in the new world of banking. Power cannot make people sell, develop innovative products, or give their all for customer service.

Reason alone has not been sufficient to bring about change, either. The fact that we marketers are saying the same things we said 20 years ago is evidence that the application of reason has not brought about change in most banks. Despite all the articles, exhortations, and speeches, reason has not prevailed.

If we agree that people won't change just because someone tells them to — power — or asks them to — reason — then it seems to me that the middle ground is the only approach left. Once we accept that changing bankers and the bank is not the solution but the problem, we can focus attention on strategies for producing and managing change. We need a formal approach to reeducation and implementing the process of change.

Organizational Development

A management technique known as organizational development has an excellent record of success in helping organizations, including some banks, adapt to change. Organizational development is a planned, managed, systematic process to change the culture, systems, and behavior of an organization. Its purpose is to change attitudes and values of employees, modify behavior, and induce change in organizational structure and policies. It is a formal approach to reeducation and managing change.

However, before organizational development or similar approaches can be successful in banking, two things must occur. First, management must recognize that the inability to change is a problem for the bank and the use of power and reason have not brought about many of the needed changes. Second, management must face the issue of who will be the catalyst for change, the "change agent."

This question is an important one. Are agents of change necessary for organizational development to take place? If we recognize that organizational development involves changes in the way people think, behave, and act, and because there is a tendency to seek answers in traditional solutions, we can appreciate the necessity of someone to play the role of change agent.

But who? Existing managers? New managers? Or someone hired specifically for the purpose? Depending on

Marketing: Page 16 ➡

Mr. Donnelly is Turner Professor of Marketing at the University of Kentucky. His latest book is "Marketing Financial Services: A Strategic Vision," published by Dow Jones-Irwin Inc.

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LETTERS TO THE EDITOR

Bank Librarians Provide Vital Services

To the Editor:

I recently read with great disappointment, Paul Nadler's article, "Reading Can Enrich the Bank's Young Blood," in the April 18 issue of the *American Banker* [page 4].

In his article he suggests that someone "like a librarian" keep a file of publications for bank executives to read. Many bank information centers already provide this vital and valuable service to the bank's staff. These information professionals gather, summarize, and disseminate this type of information in a systematic, formalized routine to keep the bank's decision makers informed.

The banking world's information professionals (librarians) are among the finest the profession has to offer. These professionals are continually developing new and more efficient ways to collect and distribute information needed for effective decision making. Additionally, they regularly evaluate the services provided to clients to ensure that their information services are meeting the needs of users.

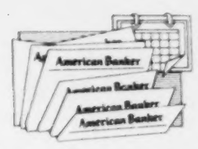
The Special Libraries Association is an international professional association of more than 12,000 members. More than 2,500 of our members are found in the business and finance world and provide the information edge to banks and related financial institutions.

Mr. Nadler is correct in his assertion that reading is important. He has overlooked the very important first stop — the bank's information center and the professionals who manage information.

David Bender
Executive Director
Special Libraries Association
Washington

FLASHBACKS

What made news in the *American Banker* this week...



40 Years Ago

• The total value of guaranteed loans to veterans under the G.I. Bill topped $7 billion, according to the Veterans Administration. The agency said 1.29 million veterans had borrowed money under the program. Home loans accounted for $6.66 billion of the funds, business loans represented $291 million, and farm loans totaled $170 million.

• The U.S. Supreme Court struck down real estate agreements as being in violation of the equal protection provision of the 14th Amendment. The ruling invalidated eviction orders against blacks who purchased homes in "covananted," or restricted neighborhoods in St. Louis and Detroit. The eviction orders had been upheld by lower courts.

20 Years Ago

• The House passed a bill to compel federal regulators to set minimum requirements for security at financial institutions. The bill would require standards covering installation, maintenance, and operation of security devices.

• The Supreme Court let stand a lower court decision limiting the scope of court review of decisions by the Comptroller of the Currency on applications for national banking charters. The court denied a petition of Citizens Bank, Hattiesburg, Miss., for review of a Fifth Circuit Court of Appeals ruling that upheld the comptroller's approval of a charter for Southern National Bank, Hattiesburg.

10 Years Ago

• The Federal Reserve Board unanimously approved a regulation allowing member banks to arrange automatic funds transfers between customer savings and checking accounts. The American Bankers Association welcomed the decision.

• Japanese Prime Minister Takeo Fukuda called for greater international efforts to ease the burdens of poor countries and pledged a significant increase in his nation's foreign aid. He also proposed that Japan and the United States consider establishing a joint fund to advance cooperation between the two countries in science and technology, and he reaffirmed his government's determination to boost domestic economic growth. He provided no details, however, on how Japan would accomplish that.

5 Years Ago

• Senate Banking Committee Chairman Jake Garn, R-Utah, said it was unlikely that Congress would impose a moratorium on applications by nonbanking firms to charter banks. Federal Reserve Board Chairman Paul A. Volcker had urged Congress to block temporarily state and federal actions that allowed other types of financial service providers to expand beyond their traditional businesses. Mr. Volcker also asked Congress to impose a moratorium on bank and thrift combinations with nondepository institutions.

1 Year Ago

• The House of Representatives approved a $5 billion rescue plan for the Federal Savings and Loan Insurance Corp., rejecting a Treasury Department proposal to permit the FSLIC to raise up to $15 billion over five years.

• A bill that would limit bank check holds cleared the House of Representatives. The bill would require the Federal Reserve to adopt regulations within three years of enactment to limit holds to one day for local items and four days for out-of-town checks. During the first three years, a less stringent schedule would apply.

• The Federal Reserve Board approved bids by Citicorp, Bankers Trust New York Corp., and J.P. Morgan & Co. to underwrite and deal in commercial paper, municipal revenue bonds, mortgage-related securities, and — with the exception of Morgan — securities backed by consumer-related receivables. But the Fed imposed severe restraints on the banks' underwriting volume.

— Domenica Trevor